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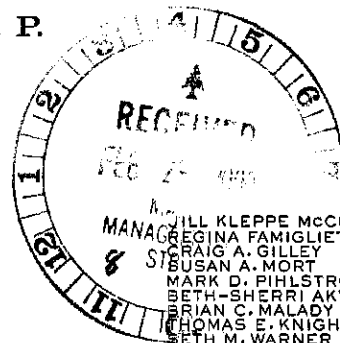
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February 29, 2000



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VIA HAND DELIVERY

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Office of the Secretary
Case Control Unit
Attn: STB Ex Parte No. 582
1925 K Street, N.W.
Washington, DC 20423-0001

FEB 29 2000

Part of
Public Record

**Re: STB Ex Parte No. 582, Public Views
on Major Rail Consolidations**

Dear Mr. Williams:

Pursuant to the January 24 and February 16, 2000 decisions in the above-captioned matter, please find enclosed an original and 10 copies of United Parcel Service, Inc.'s Summary Statement. We have also enclosed the requisite 3.5" diskette for an electronic copy of the document.

Please do not hesitate to contact us if you have any further questions or require additional information.

Very truly yours,

James F. Moriarty
Attorney for
UNITED PARCEL SERVICE, INC.

Enclosures

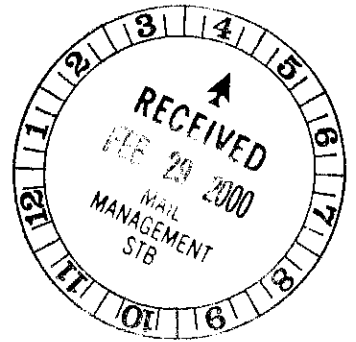
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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE NO. 582

**PUBLIC VIEWS ON MAJOR
RAIL CONSOLIDATIONS**

**SUMMARY OF STATEMENT
ON BEHALF OF UNITED PARCEL SERVICE, INC.**



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Public Record

I. INTRODUCTION

UNITED PARCEL SERVICE, INC. ("UPS") welcomes the opportunity to participate in this important public hearing on major rail consolidations. UPS commends the Board for convening this nationwide forum.

UPS has a vital interest in the present operations, and future direction, of the North American rail industry. UPS is the largest corporate customer of intermodal rail services in the United States. Since the 1960s, railroads have moved UPS packages over long distances (more than 500 miles) as an alternative to highway movement by truck. In 1999, we spent approximately \$680 million on intermodal rail services. UPS is also in the forefront of the rapid evolution of logistics and global supply chain management. The role of railroads in this evolution is critically important.

Due to our large intermodal presence, UPS experienced the considerable difficulties, and shouldered the enormous costs, caused by prior major rail consolidations. We also have learned a few lessons.

II ANY BENEFITS ARE COSTLY, DISRUPTIVE AND DELAYED

Rail carriers justify mergers on two bases: (i) lower rates; and (ii) better service. Our experience has been: (1) no lower rates result; and (ii) rail service is seriously problematic for an extended two to three year post-merger period. Incompatible rail systems, equipment shortages and confused personnel all contributed to the congestion. Unfortunately, the congestion did not remain isolated among the individual railroads merging, but spread across the entire rail network. UPS has found that -- only after this prolonged post-merger period -- service does return to, or slightly exceeds, pre-merger service levels. For what is ultimately achieved, the cost to UPS of rail consolidations is extremely high.

UPS's system relies on hundreds of trucks and trains arriving at a sorting center as scheduled. Disruptions and delays caused by rail consolidations required UPS to take every possible measure to ensure its service commitments to its shippers. Due to rail mergers over the past four years, UPS has diverted trailers from the rails to the roads. During the summer of 1999, for example, after exhausting all possibilities of having eligible union employees drive these unanticipated truck loads, over 700 union employees were turned into tractor trailer drivers. Additionally, UPS was forced into short term use of subcontractors on an emergency basis. Such disruptions caused a strain in labor relations. Absent such subcontracting, UPS would not have met its service commitments during the merger consolidation period.

Late trains also caused UPS to extend the duration of sorting operations, to add Saturday sorts, and to pay substantial overtime. UPS has tried to reschedule on a daily basis placement of trailers on trains to ensure as much as possible early departures and the avoidance of congestion.

For all these reasons, the cost to UPS of providing service during a rail merger soared dramatically.

Due to UPS's relationship with the railroads, they made significant efforts to accommodate UPS's service needs. However, notwithstanding these efforts, UPS still lost customers due to the substantial rail service disruptions caused by the mergers.

III. LESSONS LEARNED FROM THE PAST

1. The nationwide rail system undergoes severe and costly disruptions when major rail consolidations occur.
2. Significant costs are imposed on shippers like UPS to address these disruptions so that service commitments are not irrevocably jeopardized.
3. Rail carriers need a minimum two-to-three year period to digest a merger before service returns to the pre-merger level.

IV. GUIDANCE FOR THE FUTURE

1. Consistent with the Board's notice, UPS takes no position on the proposed BNSF/CN merger. However, UPS would like to acknowledge the efforts BNSF has taken to improve its service levels.
2. UPS's fundamental concern is that if the proposed BNSF/CN merger is consummated, it will trigger mega-rail mergers of an unprecedented size and scope.
3. Disruptions across the entire rail system from any such mega-mergers will be innumerable worse than anything yet experienced. Digestion will take substantially longer, and at a much greater cost, than previous mergers.

V. RECOMMENDATION

The integrated nationwide rail system is still digesting the June 1999 Norfolk Southern/CSX carve up of Conrail. UPS, for example, was forced at times to divert up to 50% of the traffic, previously handled on the rails by Conrail, to trucks due to the delays and disruptions caused by the integration of Conrail into the Norfolk Southern/CSX operations. Clearly, any additional consolidation of the industry appears premature. Based on past experience, and without commenting on the merits of any such merger, no further rail consolidation should be contemplated until June 2002 at the earliest.

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